Affordable Care Act Updates and Clarifications – TY2015

This is a summary of Affordable Care Act updates and clarifications as they relate to 2015 income tax returns. It is intended to highlight certain points and issues for counselors. As always, refer to IRS forms, instructions, and publications for detailed information. Additional updates or clarifications will be issued as new information develops.

Tax Law Matters

1. **Shared responsibility payments (SRP):** Counselors and/or Reviewers need to make sure all exemptions are explored before SRP is calculated and added to the return. This includes giving the taxpayer an opportunity to review the marketplace-only hardship exemptions. If taxpayer states they have applied or will apply for a hardship exemption, the return can be completed using "PENDING" on F8965, Part I. Remind the taxpayer that the IRS will follow-up on all PENDING exemptions.

2. **All 1095-A forms:**

   a) The marketplace (Mkt) will determine a taxpayer's eligibility for PTC. Do not second-guess the Mkt decision. If the taxpayer has received a F1095-A with advance premium tax credit (APTC), eligibility for PTC is presumed and subject only to the calculation on F8962.

   b) It is not necessary to "audit" the 1095-A forms. IRS recommends to accept F1095-A information as presented unless it is incomplete or erroneous.

   c) Taxpayers can log into their Mkt account to retrieve their F1095-A including any corrections. If the Mkt enrolled the taxpayer in Medicaid, no F1095-A will be issued; instead taxpayer should receive F1095-B showing their coverage.

   d) If the F1095-A received is incorrect, it is in taxpayer's best interest to get a correct F1095-A when they have a Mkt policy and PTC. It may not be easy, but they should follow-up with the Mkt until resolved.

3. **Marketplace policies:** Generally, insurers renew policies automatically. If taxpayers wish to change or end their coverage, they should notify both the Mkt and the insurer. Failure to do so timely can result in an inaccurate F1095-A, unallowable APTC, and loss of premiums.

4. **TY 2014 returns:** Taxpayer may receive an IRS notice regarding ACA for 2014. Read the notice carefully and review the 2014 return to determine whether an amended return is needed. This would be the case where taxpayer paid SRP but did not have to because they were eligible for an exemption.

Form 8965 - Exemptions

1. **Form 1095-C:** Employers offers of coverage may be reported on F1095-C, if any. Please note that the cost amount shown is for the employee-only coverage. The cost

for family coverage is not shown. If needed for an exemption determination, the employee must provide the offer cost of family coverage (and may need to contact their employer to get it).

2. **Separate offers of coverage:** Employers in some states may offer stand-alone policies for the spouse or dependent(s). If testing the employer offer(s) for affordability (type A or G), add the offer costs for the policies needed to cover all persons shown on the return that are eligible for coverage and test the total cost.

   Example: employer offers employee-only coverage, family coverage that would cover the employee and dependent children, and a separate policy that would cover the spouse. The employee always uses the self-only offer for the affordability test. To test for the affordability of the family offers, take the cost for the family coverage and add the cost for the spouse. Compare the total to the affordability threshold.

3. **No Employer Offer:** One or more persons shown on the return may not be eligible for an employer offer, even though there is an offer of family coverage by one or more employers. For example, a child over the age of 26 that is claimed by his/her parents may not be eligible under the taxpayer's employer offer of family coverage. In this case, the person(s) not eligible for an employer offer **cannot** use the employer offer affordability exemption but **can** use the marketplace coverage affordability (MCA) exemption (type A) when no other exemption applies. In completing MCA Wkt, line 1, combine all persons who were not eligible for employer coverage.

4. **Marketplace coverage affordability exemption:**

   a) Eligibility for government-sponsored coverage (e.g. Medicaid) may affect the result of the MCA test and avoid SRP. It does not matter whether taxpayer actually applied for the government-sponsored coverage.

   b) If a person shown on the return is eligible for coverage outside the individual market, they are not eligible for PTC. Those persons would not be included in the line 10 second-lowest cost silver plan (SLCSP) quote on MCA Wkt.

   c) For all persons, if household modified adjusted gross income (MAGI) is less than 138% of the federal poverty level (FPL) (100% for a Medicaid nonexpansion state), it is safe to assume that they were eligible for Medicaid and not eligible for PTC. The SLCSP on MCA Wkt line 10 would be zero.

   d) Your state/county may have higher income thresholds for Medicaid/CHIP coverage in which case no PTC would be allowed for the individual on the MCA Wkt. As shown on the attached chart*, the income threshold could be over 300% of FPL. Counselors are **not** expected to be Medicaid experts – use the chart* information solely for the MCA exemption (MCA Wkt, line 10). For information on less traditional family arrangements (e.g. grandparents raising grandchild) and more details, go to Medicaid.gov and search your state/county. ***Note:*** do not use the chart for actual the PTC calculation on F8962 – leave that determination to the Mkt.

e) Additionally, if there were some months of little or no income, individuals may have been eligible for Medicaid (even though their full-year income is over the threshold on the attached chart*). Taxpayer will need to state whether they would have been eligible for Medicaid, and may need to contact their Medicaid office to make this statement.

f) If circumstances changed during the year, you'll need to complete more than one MCA Wkt. TaxWise (TW) allows only one MCA Wkt per return. So print the MCA Wkt before re-using it. You may also wish to print the Mkt quotes used to facilitate quality review.

* The chart generally scales the percentages down by a 5% disregard – see footnote 1. So 133% on the chart is really 138%.

5. **Marketplace look-up tool:** When looking up the lowest-cost bronze plan (LCBP) or the SLCSP for the MCA exemption, the income level is not relevant. The federal Mkt tool does not ask for the income level and only asks whether the individual was eligible for employer or other coverage. State Mkts may function differently. If asked for an income level, use an amount large enough ($100,000 or more) so that the results are not impacted by PTC or Medicaid/CHIP eligibility.

6. **Nonexpansion states - *Hint*:** If household MAGI is less than 138% of the federal poverty line (FPL), a type G exemption can be claimed for each person that lived in a nonexpansion state at any time during the year. MAGI for this purpose includes the MAGI of dependents who need to file a return and untaxed social security. Household MAGI can be found on TW MCA Wkt line 2 and already includes dependents' MAGI entered on 1040 ACA Wkt. Line 3 on 1040 ACA Wkt shows the untaxed social security shown on the return **and** reminds the preparer to add a dependent's untaxed social security income, if any. The percentage of FPL is shown on line 6. ***Note:*** do not use F8962 for this purpose as activating F8962 with any entry can cause an efile reject if the incomplete form is left in the return.

7. **When to claim type H exemption:** Use type H when the box on 1040 line 61 cannot be checked because someone on the return does not have coverage for each month for which they are required to have coverage. This can happen because this individual or

another individual on the return does not have coverage and is either claiming a different exemption or paying SRP.

Claim type H exemption on F8965, Part III, for the months prior to birth or adoption or after death. If the person claiming type H did not have coverage for the month of birth, adoption or death, also claim type H for that month – no SRP ever applies to that month. Remember that one day of coverage means full coverage for the month.

8. **SRP**: A taxpayer is responsible for coverage for all persons shown on their return, which includes their spouse and claimed dependents. Taxpayer is not required to claim a dependent if they wish not to. If a taxpayer does not claim an individual that could be their dependent, the taxpayer can generally not claim any benefit with respect to that unclaimed dependent. Notably, though, the taxpayer can still claim the individual as their qualifying child for earned income credit purposes, if they otherwise qualify.

Form 8962 – Premium Tax Credit

1. **FPL over 400%:** When MAGI as shown on F8962 is over 400% of FPL, **all** the APTC must be repaid. In this case, there is no repayment cap. Follow the instruction in the middle of the TW form where headed “Annual Calculation.” Since all APTC must be repaid, it is not necessary to enter the monthly amounts (even if they differ). Simple enter the full amount of APTC shown on F1095-A on line 11 in column F. ***Do not enter any amounts in columns A or B.***
2. **FPL over 400% and MFJ:** Taxpayers may wish to consider whether filing MFS might be more advantageous. For ACA purposes, no PTC is allowed but the repayment cap applies. If the Mkt policy covers individuals that are not on the same return, this would be a shared policy and out of scope. Of course, the overall benefit needs to be determined as many tax benefits do not apply when filing MFS.
3. **FPL below 100%:** There are two limited exceptions which allow a taxpayer whose income is below 100% of FPL to claim PTC. First, the Mkt estimated that the taxpayer would be eligible for PTC by granting APTC. Second, if the taxpayer is ineligible for Medicaid because of their immigration status. In either case, mark the Yes bubble on TW 8962 line 6 and complete F8962. If neither exception applies, do not complete F8962 as it is not needed. Be sure to delete the form if not needed.
4. **MFS filing status:** When a taxpayer has received APTC and is filing MFS, it is first necessary to determine whether taxpayer qualifies for relief as an abused or abandoned spouse. If they do, check the box at the top of F8962 and complete the rest of the form.

   If taxpayer does not qualify for relief, follow the instruction at the top of the form to enter the APTC in column F only – TW will apply the repayment cap properly.

5. **Eligibility for other coverage:** Even though a taxpayer meets the criteria for government coverage, e.g. age 65 for Medicare, they may not apply timely. When the government coverage becomes effective, it may be granted retroactively, e.g. Medicaid. Generally, taxpayers have three months to complete the enrollment process during which they remain eligible for PTC (if otherwise eligible). Beginning with the first full month of government-sponsored coverage or the fourth month after taxpayer has satisfied the criteria for coverage, taxpayer is no long eligible for PTC and APTC must be repaid.

Looking Forward

Taxpayers that purchase policies through the Mkt and receive APTC are well served to continually update their data with the Mkt.

CMS
CENTERS FOR MEDICARE & MEDICAID SERVICES
CENTER FOR MEDICAID & CHIP SERVICES

State Medicaid and CHIP Income Eligibility Standards[1]

(For MAGI Groups, based on state decisions as of October 1, 2014)

	Children				Pregnant Women		Adults		
	Medicaid Ages 0-1[2]	Medicaid Ages 1-5[2]	Medicaid Ages 6-18[2]	Separate CHIP[3]	Medicaid	CHIP	Parents[4]	Other Adults	Medicaid Expansion
Alabama	141%	141%	141%	312%	141%	N/A	13%	0%	N
Alaska[5]	203%	203%	203%	N/A	200%	N/A	129%	0%[6]	N
Arizona	147%	141%	133%	200% (closed)	156%	N/A	133%	133%	Y
Arkansas	211%	211%	211%	N/A	209%	N/A	133%	133%	Y
California	261%	261%	261%	N/A[7]	208%	N/A	133%	133%	Y
Colorado	142%	142%	142%	260%	195%	260%	133%	133%	Y
Connecticut	196%	196%	196%	318%	258%	N/A	196%	133%	Y
Delaware	212%	142%	133%	212% (1-18)	212%	N/A	133%	133%	Y
District of Columbia	319%	319%	319%	N/A	319%	N/A	216%	210%	Y
Florida	206%	140%	133%	210% (1-18)	191%	N/A	30%	0%[6]	N
Georgia	205%	149%	133%	247%	220%	N/A	35%	0%	N
Hawaii[5]	308%	308%	308%	N/A	191%	N/A	133%	133%	Y
Idaho	142%	142%	133%	185%	133%	N/A	24%[8]	[9]	N
Illinois	142%	142%	142%	313%	208%	N/A	133%	133%	Y
Indiana	208%	158%	158%	250%	208%	N/A	20%[8]	[9]	N
Iowa	375%	167%	167%	302% (1-18)	375%	N/A	133%	133%	Y
Kansas	166%	149%	133%	242%	166%	N/A	33%	0%	N
Kentucky	195%	159%	159%	213%	195%	N/A	133%	133%	Y
Louisiana	212%	212%	212%	250%	133%	N/A	19%[8]	[9]	N
Maine	191%	157%	157%	208%	209%	N/A	100%	[6]	N
Maryland	317%	317%	317%	N/A	259%	N/A	133%	133%	Y
Massachusetts	200%	150%	150%	300%	200%[10]	200%[10]	133%	133%[6]	Y
Michigan	195%	160%	160%	212%	195%	N/A	133%	133%	Y
Minnesota	283%	275%	275%	N/A	278%	N/A	200%[11]	200%[11]	Y
Mississippi	194%	143%	133%	209%	194%	N/A	22%	0%	N
Missouri	196%	150%	150%	300%	196%	N/A	18%[8]	[9]	N
Montana	143%	143%	143%	261%	157%	N/A	47%	[9]	N
Nebraska	213%	213%	213%	N/A	194%	N/A	57%	0%	N
Nevada	160%	160%	133%	200%	160%	N/A	133%	133%	Y
New Hampshire	318%	318%	318%	N/A	196%	N/A	133%	133%	Y
New Jersey	194%	142%	142%	350%	194%	200%	133%	133%	Y
New Mexico	300%	300%	240%	N/A	250%	N/A	133%	133%	Y
New York	218%	149%	149%	400%	218%	N/A	133%	133%	Y
North Carolina	210%	210%	133%	211% (6-18)	196%	N/A	45%	0%[6]	N
North Dakota	147%	147%	133%	170%	147%	N/A	133%	133%	Y
Ohio	206%	206%	206%	N/A	200%	N/A	133%	133%	Y
Oklahoma	205%	205%	205%	N/A	133%	N/A	42%[8]	[9]	N
Oregon	185%	133%	133%	300%	185%	N/A	133%	133%	Y
Pennsylvania	215%	157%	133%	314%	215%	N/A	33%	0%[6]	Y (1/1/15)
Rhode Island	261%	261%	261%	N/A	190%	253%	133%	133%	Y
South Carolina	208%	208%	208%	N/A	194%	N/A	62%	0%	N
South Dakota	182%	182%	182%	204%	133%	N/A	58%	0%	N
Tennessee	195%	142%	133%	250%	195%	N/A	105%	0%	N
Texas	198%	144%	133%	201%	198%	N/A	15%	0%	N
Utah	139%	139%	133%	200%	139%	N/A	51%[8]	[9]	N
Vermont	312%	312%	312%	312%	208%	N/A	133%	133%	Y
Virginia	143%	143%	143%	200%	143%	N/A	49%	0%	N
Washington	210%	210%	210%	312%	193%	N/A	133%	133%	Y
West Virginia	158%	141%	133%	300%	158%	N/A	133%	133%	Y
Wisconsin	301%	186%	151%	301% (1-18)	301%	N/A	95%[8]	95%	N
Wyoming	154%	154%	133%	200%	154%	N/A	56%	0%	N

Source: Eligibility levels in effect based on information current as of October 1, 2014 provided to CMS by states. CMS used the data provided for purposes of FFM programming for the following states: AL, AK, AZ, AR, DE, FL, GA, ID,IL, IN, IA, KS, LA, ME, MI, MS, MO, MT, NE, NH, NJ, NM, NC, ND, OH, OK, PA, SC, SD, TN, TX, UT, VA, WV, WI and WY. CMS used information from approved state plan amendments for the following states: CO, CT, DC, HI, IA, KY, MD, MA, MN, NV, NY, OR, RI, VT, and WA. CMS used information from state plan amendments that have been submitted to CMS but not yet approved for CA and IL. These levels are subject to change.

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[1] For these eligibility groups, an individual's income, computed based on the new Modified Adjusted Gross Income (MAGI)-based income rules and adjusted by a 5% disregard, is compared to the income standards identified in this table to determine if they are income eligible for Medicaid or CHIP. Other eligibility criteria also apply, for example, with respect to citizenship, immigration status and residency. Note that this table reflects the principal but not all MAGI coverage groups. To learn more about the MAGI standards, see http://medicaid.gov/AffordableCareAct/Medicaid-Moving-Forward-2014/Downloads/Modified-Adjusted-Gross-Income-and-Medicaid-CHIP.pdf

[2] These eligibility standards include CHIP-funded Medicaid expansions.

[3] Children in separate CHIP programs are typically charged premiums. This table does not include notations of states that have elected to provide CHIP coverage from conception to birth.

[4] In states that used dollar amounts rather than percentages of the federal poverty level (FPL) for 2013 to determine eligibility for parents, we converted those amounts to a percentage of the FPL and selected the highest percentage to reflect the eligibility level for the group. In addition, in states that are adopting the Medicaid expansion, we have indicated the upper income limit for parents to also be 133% of the FPL, since parents can be eligible for coverage under the new adult group. The actual dollar standards that states will use to determine eligibility are quoted in the monthly income tables.

[5] The dollar values that represent the FPLs in Alaska and Hawaii are higher than in the contiguous 48 states. For example, as of 2014, 100% of the FPL for a family of four is equal to $29,820 in Alaska and $27,430 in Hawaii, compared to $23,850 in the other 48 states.

[6] The state covers some 19 and 20 year olds – AK (129%), FL (30%), ME (156%), MA (150%), NY (150%), NC (46%), PA (33%).

[7] California has a separate CHIP program in four counties that covers children up to 317% of the FPL in three of the counties and 411% of the FPL in one of the counties.

[8] Reflects parent coverage under the Medicaid state plan. The state has some additional coverage above state plan eligibility standards through a section 1115 demonstration. The demonstration includes limitations on eligibility and/or benefits, is not offered to all residents of the state, and/or includes an enrollment cap.

[9] The state has a section 1115 demonstration that provides Medicaid coverage to some low-income adults. The demonstration includes limitations on eligibility and/or benefits, is not offered to all residents of the state, and/or includes an enrollment cap.

[10] Massachusetts provides Medicaid coverage to pregnant women with eligible immigration statuses who have incomes up to 200% of the FPL and CHIP coverage to pregnant women with incomes up to 200% of the FPL who do not qualify for Medicaid due to their immigration status.

[11] Parents and adults with incomes between 133 and 200% of the FPL are covered through a section 1115 demonstration.